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SUPERVISOR'S USE ONLY

Level 2 Accounting, 2016

91177 Interpret accounting information for entities that operate accounting subsystems

2.00 p.m. Tuesday 22 November 2016
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Interpret accounting information for entities that operate accounting subsystems.	Interpret accounting information in depth for entities that operate accounting subsystems.	Interpret accounting information comprehensively for entities that operate accounting subsystems.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

Pull out Resource Booklet 91177R from the centre of this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–10 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Achievement

TOTAL

11

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Refer to **Resources A, B, C, and D** in **Resource Booklet 91177R** when answering the questions.

QUESTION ONE

Papermill is owned by Anne. The business is a stationery shop that sells books, magazines, toys, and office supplies.

- (a) Complete the table of analysis measures below using **Resource A** and **Resource B**. (Round your answer to one decimal place, where necessary, and ignore GST.)

Analysis Measures for <i>Papermill</i>		
	2015	2016
Percentage change in sales	2%	4.9 %
Mark-up percentage	95%	90 %
Mark-up percentage – industry average	95%	95%

Like other businesses in the industry, *Papermill* has faced increased costs from its **suppliers** for the year ended 31 March 2016.

- (b) Justify how *Papermill* successfully responded to the challenge of increased costs from its suppliers in the year ended 31 March 2016. In your answer, use information from the table above and **Resource B** to explain:
- what *Papermill*'s **mark-up percentage** in 2016 means
 - how the **trend** in *Papermill*'s mark-up percentage shows the business's response to the increased costs from suppliers
 - how and why the response from *Papermill* in 2016 was successful.

Papermill's mark-up percentage of 90% in 2016 means that 90% of the cost price is added to the cost price to get the selling price. For example a book which costs \$10, a mark-up of 90% is added to get the selling price of \$19.00. The mark-up percentage has fallen from 95% to 90% meaning that there was a downward trend in this business mark-up percentage from 2015 to 2016. This trend shows how *Papermill* responded to the increased cost their/her suppliers. *Papermill* ~~was~~ responded to these increased costs by reducing their mark-up percentage. They did this and in doing so their mark-up percentage fell below the industry standard. With their mark-up price

being below the industry standard Papermill were able to continue to sell their goods around about normal pricing while the majority of the industry inflated their pricing to counter the more expensive supplies. This response was successful as it allowed them to sell more goods. Also people would buy from Papermill over other places, meaning increased sales. //

(c) Use **Resource C** to answer the following questions:

- (i) Describe what the **trend** in the **net profit/profit for year** percentage means.

The net profit percentage has decreased from 13.4% in 2015 to 13% in 2016.

This means that for every dollar of sales in 2016 13 cents is net profit, which is 0.4 cent less than last year. //

- (ii) Explain, with an example, what impact distribution costs have had on the trend in the net profit/profit for year percentage.

The distribution costs have made a positive impact on the net profit percentage even though the percentage fell. Looking at the conversation with Archa I can see that she changed her advertising from the newspaper to the radio. Although this may have been more expensive, combined with the cheaper than ~~the~~ industry prices it would have allowed Papermill to ~~generate~~ generate a lot more sales ~~at~~ at the lower markup allowing them to keep a constant profit for the year figure from 2015 to 2016. //

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QUESTION TWO

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- (a) Complete the table of analysis measures below using **Resources A, B, C, and D**. (Round your answer for age of accounts receivable up to the next day and inventory turnover to one decimal place.)

Analysis Measures for Papermill		
	2015	2016
Age of accounts receivable	33 days	33 days
Inventory turnover	5.1 times per year	4.1 times per year

- (b) Justify the importance of good management of *Papermill's* age of accounts receivable. In your answer, use information from the table above and **Resources B, C, and D** to explain:
- what an age of accounts receivable of 33 days means
 - how an age of 33 days affects *Papermill's* ability to pay suppliers
 - how offering a discount of 2% to credit customers influences *Papermill's* age of accounts receivable.

The age of accounts receivable of 33 days means that on average it takes *Papermill* 33 days to receive payments from credit customers.

An age of 33 days may cause *Papermill* to be unable to ~~now~~ meet their immediate debts such as payments to suppliers as they may not possibly have the money from credit customers to use — This is due to customers taking too long to pay.

Offering a 2% discount to customers who pay within a month is good as it will decrease the age of accounts receivable as customers will want to receive the discount so will pay on time to get this — within the month.

Anne launched an online store for *Papermill* in April 2016.

- (c) Justify the impact the **preparation** for the launch of the online store had on *Papermill*'s **inventory** management for the year ended **31 March 2016**. In your answer, use information from the table on page 4 and **Resource D** to explain:
- what the **2015** inventory turnover means
 - how and why the preparation for the online store launch has affected the trend in inventory turnover
 - the likely consequence of the decision to launch the online store on inventory turnover for the year ended **31 March 2017**.

The 2015 inventory turnover of 5.1 times per year means that on average Papermills inventory is sold in its entirety 5.1 times per year. //

The preparation for the online store launch has affected the negative trend in inventory turnover as it has decreased from 5.1 to 4.1 times per year in 2016. This is most likely decreased due to the extra \$35,000 worth of inventory owned by Papermill.

The online store will most likely mean that there will be an increase in inventory turnover. This is because the on-line store will help boost sales causing Papermills to restock more often. //

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QUESTION THREE

- (a) Complete the table of analysis measures below using **Resources A, C, and D**. (Round your answer for the liquid ratio to two decimal places and return on equity to one decimal place.)

Analysis Measures for Papermill		
	2015	2016
Liquid ratio	3.11:1	0.93 1.1 :1
Return on equity	14.8%	14.9 %

- (b) Justify how Papermill's ability to pay **immediate** debts has been affected by preparation for the launch of the online store. In your answer, use information from the table above and **Resource D** to explain:

- what the **trend** in the liquid ratio means
- how the preparation for the launch of the online store has caused the trend
- why Anne should not be concerned by the trend.

The negative trend in the liquid ratio from 3.11:1 to ^{0.93}~~1.1~~ in 2016 means ~~for~~ that in 2016 for every \$1 of liquid liabilities, there are 0.93 cents of Liquid Assets. This means that Papermill may not be able to pay their immediate debts as they fall due within the next 4-6 weeks. //

The preparation for the launch of the online store has caused this displeasing trend in the liquid ratio as ~~the~~ bank has decreased by \$30,000 as a result of covering the costs of the online store. This has then reduced the current assets, affecting liquid ratio. //

~~Anne should not be concerned~~ Anne should be concerned by this trend as it means that she risks not being able to pay her immediate debts as they fall due within the next 4-6 weeks. With her current asset bank decreasing, it means that she ~~at~~ only has \$2,500 to pay her immediate debts. //

(c) Justify the likely impact the opening of the online store option will have on the **return on equity** for Anne in the year ended **31 March 2017**. In your answer, use information from the table on page 6 and **Resource D** to explain:

- the meaning of a 14.8% return on equity
- how the online store option could improve the return on equity for the year ended 31 March 2017.

The rate of return on equity for Anne means that 14.8 cents in every dollar is returned to Anne.

The online store could improve the return on equity for the year ended 31 March 2017 as it would be a great way of selling more inventory which would cause profit to increase, therefore making the overall equity of Papermills to increase. If more inventory is sold from both the store and online store, this will cause the return on equity for the year ended 31 March 2017 to improve, therefore Anne would receive a greater profit for the year. //

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Extra space if required.
Write the question number(s) if applicable.

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QUESTION
NUMBER

Achieved exemplar 2016

Subject:		Accounting 2016	Standard:	91177	Total score:	11
Q	Grade score	Annotation				
1	A4	<p>This is a solid Achieved. Calculations are correct and the candidate is able to describe the mark-up percentage with an example. Although an incorrect response was given (reduced mark-up percentage), the candidate was able to describe how the decreased mark-up percentage increased sales – due to goods being cheaper than competitors'. Apart from the mark-up percentage, there are no other supporting figures in the answer.</p> <p>Has correctly described the meaning of the net profit percentage. Good use of resource material when describing the switch from newspaper to radio advertising, explaining the impact distribution costs had on net profit. For a higher grade, candidate needed to include figures and relate to question, i.e. net profit percentage.</p>				
2	A4	<p>The candidate has correctly calculated analysis measures and what an age of accounts receivable of 33 days means. Although the candidate incorrectly described how the age of 33 days affects <i>Papermill's</i> ability to pay suppliers, they have described how the 2% discount will reduce the age of accounts receivable as credit customers will want to pay within the month to receive the discount.</p> <p>The meaning of the inventory turnover has been described and the candidate has stated that the extra \$35 000 of inventory is the reason for the negative trend from 5.1 to 4.1 times a year, and that this will increase once the online store is launched because this will help boost sales, increasing turnover.</p>				
3	A3	<p>Candidate has correctly calculated analysis measures. They have described the trend in the liquid ratio, indicating that <i>Papermill</i> may not be able to pay immediate debts as they fall due. Despite correctly identifying that bank decreased by \$30 000, they have incorrectly said this affected the liquid ratio as the bank was a current asset. The reason why Anne should not be concerned by the trend was also incorrect, meaning that a higher grade could not be awarded.</p> <p>The return-on-equity ratio answer explains how the online store has another way of selling more inventory and therefore increasing profit, but for a higher grade it needed to be more detailed when giving the meaning for the return on equity.</p>				